

Cargotec
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Chaired by Paula Liimatta

Paula Liimatta

Good morning ladies and gentlemen and welcome to Cargotec's January 2012 report conference call. My name is Paula Liimatta and I am Head of Investor Relations at Cargotec. Today we will proceed in the same way as before. We start with a presentation by our President and CEO Mikael Mäkinen, and after that we have time to answer your questions. We will start with the questions from the live audience and then from the people on the phone lines. Before asking a question, please wait for a microphone and state your name to benefit the other listeners. I think we are ready to start, Mikael please.

Mikael Mäkinen

Thank you, and welcome everybody. As usual I will spend 15-20 minutes on the January/June Interim Report. Highlights in Q2, I put here as the first point the strategic foundation in Asia established. What do I mean by that? We will come back a bit later on one slide, but I think it is very important to remember now we have told you about the groundbreaking ceremony of the joint venture with Rainbow Heavy and now just a few days back we told you about the joint venture with Sinotruk. The joint venture with Sinotruk is actually our very important step in getting into the Chinese market and the Chinese exports markets as well. Sinotruk is the biggest producer of heavy trucks and with this joint venture we feel that now we have a way of penetrating the Chinese market in a totally different way that we could not do alone. Sinotruk has more than 1,000 sales establishments in China and so on. I will come back to that a bit later. Now we are know what we are in Asia for load handling business, for terminals, with the two acquisitions we have made, one joint venture and one acquisition, we have also laid the foundation and know how to proceed from there. The other intake increased 17% year-on-year, a very good figure. Sales grew by 7%, operating profit was flattish 4.8, and that is why I put the bullet point under that priority in improving profitability. This is really what we are working on right now. Last but not least the June '12 guidance is valid.

If you look at the figures, I was just talking about the various points, order intake fairly good in this market situation, sales good. Are we happy with the operating profit? Of course not, but we knew from the very beginning that year 2012 will be very much focused on deliveries towards the second half of the year. Performance development as I said is going in the right direction in terms of orders, in terms of sales, but the EBIT improvement should be faster. You have to remember, as you will see on the marine slides that the size of the marine business has been going slightly down and that has a negative impact on the profit from that business as well. It has to be offset by the pickup of load handling and terminals.

Marine – as you might have seen in the market, very much is focusing on offshore today. The offshore orders are the ones that continue to grow, and at the same time the order

intake has been fairly slow on normal cargo handling ships and normal ships. How will it go from here onwards? Difficult to say, I believe that we will have some time still a low order intake, shipyard order intake for ships and that will reflect our order intake as well. As said a quarter of our orders were from offshore, offshore is doing very well at the moment. Sales remain in Marine at a healthy level. Profitability was exactly at our expected level. We have told you that over the time we will not be able to stay on the 14.8/15% EBIT level. Those were orders taken during the real boom times, now we are going down to normal levels. We see some gradual recovery of the service business in Marine as well.

Terminals – it is automation, it is big projects, big complicated projects and we managed to cleanse a number of them that is why our order intake grew by 57% year-on-year, and sales by 28%. Profitability, yes it improves, are we happy with that? No. That is again here priority number one – how to improve the profitability. You have to remember that on big cranes the profitability is lower so big projects always consist of a combination of big cranes and other equipment, so that has an impact on the profitability as well. There is a change in the product market mix as well, this is normal. Service business was low and that has been fairly interesting in the terminals market; that you see service business is not picking up as much as we thought. Is there any reason for it? Maybe some customers are insourcing, some customers are just postponing their service, it is difficult to say.

Competitive situation – when the market is going down and we have these huge challenges of nobody knows what is happening with the European economy, what is happening with the world economy, so of course people are going after the projects that are out there. The competitive situation is fairly tough at the moment. Okay we are used to that. It is no problem; that is why we made a joint venture in China with Rainbow Heavy to offset that. That is why we want to go to higher value markets. That is why we bought Navis, that is why we bought the automation company in Australia, so that we can offer, be more resilient to these kinds of changes.

R&D costs during 2012 have been and will be on a fairly high level. We are really taking a step change here. Why is that? We saw the automation projects coming. We need solutions for automation. We have got some interesting orders exactly because, and that is why we are able to be market leader in the segment. The investments in R&D and the poor technology will continue but of course they will not go on forever, so we take the step change, we do R&D, and when that is ready then we can take it to a lower level, so again fairly confident that we know what we are doing, how we are doing it, but it takes time and that is why you cannot see a very, very fast recovery in this business.

Load handling – profitability was weaker than normal. Let's start with the market. The market was good. It was good in the United States, and at the same time the uncertainty in Europe was of course increasing which shouldn't be a surprise to anyone. Orders grew by 7% year-on-year, sales by 5. Operating margin, 2.6, and why is that? Of course there is competition, there are these normal things, but there are certain one-off types of costs in the second quarter. That is why we have put in the bullet point here that the normal level should be reflected in the second half of the year. Again you have to remember here that we are talking about very small amounts. We are talking about very small amounts here when it goes up and down, but I think it is well under control. How will it look at the end of the year? Yes we still need to sell cranes for trucks, trucks that will be ordered in August, September, October, but fairly confident that we are going in the right direction.

Gross profit came down a bit; it is a mixed question, nothing dramatic. Cash flow, working capital is the real big thing. Of course we cannot leave it a figure like this, we cannot leave it with this type of figures, but we are now building up for the big deliveries towards the end of the year, so now it is actually from that point of view the worst point, accumulating resources, buying in components, having half made products and so on. I am quite confident that the direction will change very well in the second half.

Service – here I always get the question that is why our service, why is it only less than 30% of your sales? This is a market where you never have...you don't have these huge big steps in service, the way to increase the service sales would be to increase the manpower sales and their the profitability is not as good as on for example spare parts and projects. 4% sales growth, yes it is going in the right direction, of course I would like it to be even faster.

Americas as I said on load handling and in projects, Americas has been a very good market for us. Order intake sales have been good, at the same time lower order intake, lower sales on the Marine side is reflecting that the APAC number is coming down a bit. No dramatic changes to either direction.

A few slides about the strategy, let's start with the Terminal strategy. I said earlier that we had a groundbreaking ceremony of our Rainbow Heavy joint venture and the picture you can see here on the slide is really giving you a view of what we are trying to do in China. We are building up a production facility where we can together with our partner produce bigger cranes competitively, have it shore-side, easy transportation, you have to remember transportation cost is fairly big part of a project delivery. That is more the strategy, but if you really look at the number one again, profit goes over sales growth. The whole organisation knows that we are talking about profit now; yes we can leave orders untaken if we don't feel that they are on the right profitability level. Point number three – the big projects that we have got, we have to have a good execution of those projects. Offering development – as I said earlier, more automation that is why we have the R&D costs, the peaking R&D costs this year, we put a lot of effort in increasing our portfolio or our way of offering to the customer. I believe that this is really the market that will be the driving force in the future; it is big automation projects where the terminals try to reduce their costs. There is a huge pressure on that from the market because you have to remember that the shipping lines want to change to low speed, so they go at lower speed, so it takes a longer time from start to end, where can they catch up that time, it is that the terminal is as efficient as possible. How can you cut hours, minutes, seconds when you offload and load on containers; that is by terms of automation?

Load handling – I was talking about... here you see the picture of Sinotruk, Sinotruk truck with our crane. I am very, very happy that we managed to get a partner like Sinotruk for China, because as I said they are the biggest truck manufacturer, they have the biggest network in that country, they have good export markets, so I think together with them we can really develop the load handling business in the developing world.

I put here also Brazil and Russia. Brazil is an interesting market, we need a solution, we are already in Brazil. Brazil is a bit overheated today, so we see how it should be done, how it should not be done. Russia is developing fairly slowly for load handling equipment, but we are working on how to establish ourselves in that market as well.

Lower cost base – how can we lower the cost base for the products? There is all the time the pressure from the market. Of course partly we will have the solution via Sinotruk in China, then we have to look at product, design, everything.

The route to the market – as I have said sometimes that if you build your own network for China, it takes, according to our calculation six to ten years and it costs more than what we are going to pay for our part of the joint venture here. Then you will have 20-30 outlets there. You will never cover the whole country, so really we have to look at the route to the market.

Key priorities – once again 2012 it is not growth, it is nothing else than improving profitability. We are looking at all costs, always of improving the profitability. The strategic foundation that I was talking about in the beginning, I have to stress that I am extremely happy with what we have established here, what we have been able to do. Now we are a well-established player in both terminals and load handling in Asia, and it is a very, very good foundation for continuing to build those businesses. In marine we believe that we need some kind of a growth platform.

What are the growth opportunities? Are they joint ventures? Are they acquisitions? What are they? That is something that we are working on all the time. Then of course not to forget our ERP system. I believe that if you want to have a company, a very, very profitable company, you need a very good ERP system that you know every time, every minute where you are on the cost side, and have very good management accounting to follow it up, in different market situations. Remember that all calculations, or all studies show that the market hiccup or recession that we had five years ago, it usually takes ten years before it is restored to normal markets again, and we are five years into that. I am 100% sure that during the next X years we will see another shock, and then my job is to see that our company is ready for any kind of market situation. We haven't seen it yet. I don't know when it is coming, but it is very important to be prepared for it.

The outlook we haven't changed, so I think Paula with this I will end my presentation and of course answer any of your questions, comments, thank you.

Questions and Answers

Participant

A couple of questions and I would like to start with the load handling, you mentioned that there were some one-time type costs in the second quarter. Could you explain a little bit what kinds of costs we are talking about? Related towards load handling, you mentioned that the truck market has been quite strong, but last week Cummings gave a profit warning and indicating that the US truck market is quite rapidly weak and now you say it is very strong.

Firstly if you take load handling and talk about the one-time costs, there were a few million, so different types of small costs that we decided we take it now. There is nothing big, dramatic, or something that I would like to bring up, so there are one-off kinds of costs, and that is why we put them into the business. They are then taken over.

If we go to Cummings and the load handling market – yes of course we are prepared for a possible lower order intake, but one has to remember that it is not always so. I would like to stress this that it is not always so that when the truck market goes down, automatically load handling goes down. It is a combination of what is happening. Again what we see in the US without mentioning any names of any customers, but it is the big distribution companies, so there is consumption of something in the US that's driving this, but of course, you are totally right that if it goes dramatically down the track registration then, of course, it will have an effect on us, but it's not automatically so that if they go down or if they go up, we will follow it. Of course, we have seen...I mean the big manufacturers in China, for example, they feel...they went down from about 25% 2010 to 2011, they believe that they should...they are on last year's level this year or could go 5% up. Now it's dependent on if there is some recovery or infrastructure measures that the Chinese Government is taking, but there is no dramatic change there yet.

Thank you and the second question about the terminals that you are quite confident that you can improve the margin in the coming quarters, could you talk a little bit about the measures, what kind of measures you are taking, and having in mind that you referred to the tight price competition and, of course, that might raise the question about the profitability in the new orders you have taken. Could you comment also on that?

Yes. First of all, as I said, big cranes have a lot of profitability than what we call mobile equipment. That's just the fact. The second thing is that, of course, we know by now the biggest portion of our order book for the rest of the year and then it's a combination of its delivery is to developed or developing countries, that's also a fact that developed countries have higher margins than developing countries, the equipment is more advanced and so on, so again it's not a one-off, not this and that, and tight competition; yes, there is tight competition and there are orders that we have not taken because of that, orders that have been very interesting for us, but we have given to the competition. I have to stress the fact that the Rainbow Heavy joint venture is a must. If we don't get that working, if it doesn't...if we would not have that then it will be very difficult on that, on the big crane markets, because the main competition is, of course, BMG from China, so we have to be on an even playing field and you have to do it together with the parent in China. I don't think always (?) this company just establishing itself in China, you get the full percentages, but you have to have a local partner who knows how to drive down costs.

Thank you and a third question about the pole issue and what kind of capital utilisation you have there at the moment, are you happy with that?

Fairly happy that and, of course, we start to be on the level that we have to see what shall we do now; shall we take in more work for so and so, so fairly happy. It has gone according to our plans.

Tom Skogman – Handlesbanken

In the profit warning you sent out in June you still kept the message of an improving EBIT margin in both load handling and in terminals. I cannot see that performance in the report today. Have you changed your view on that or how should we see it?

Well, I think we wanted to make very clear what is our guidance and if you read very closely the report that you actually find in the load handling part a comment on that when

we are discussing the second quarter's operating profit that we feel that that was burdened, as our CEO was mentioning with some extra costs and hence the operational run rate is better, and that of course then when you look where we are now year-to-date it gives us some...it doesn't mean that we have changed the target. In terminals we obviously have...it's more of an uphill if you look at where we are year-to-date, does it mean that the target would be different, but I think that it's fair to say here that we need to sort of focus on that we do the right things in some areas. We might try to improve the terminals and load handling results by having cost savings in central costs, and that of course helps to ensure the overall guidance it only has an indirect impact on the terminals margin.

There are quite a lot of deliveries at the year-end and that is also sort of a part of the uncertainty, which...that...are we able to deliver everything we had planned in December and that could then...when we talk in absolute terms on relatively low, small numbers, so the margins can fluctuate, so I think it's just fair to understand that the target hasn't changed, but there is, based on where we are year-to-date, some uncertainty and I think it's more important that we kind of guide you on how we're going during the second half and then you can make your own conclusions on where we will end up with.

Sebastian Ubert – UBS

My question would be also regarding your second half guess that guidance did imply EBIT profitability of above 7% for that Q3 and Q4, assuming that there are some good deliveries in Q4 and you have good fixed cost absorption, so what would be your roadmap then to achieve that guidance? You must be well above 7% at least in the fourth quarter and would that then also be your run rate for 2013? Thank you.

Yes, I can continue on that. Well, first priority in order to achieve the second quarter profitability is deliver the order book we have without surprises, without any hiccups. That is obviously...you can...there is work to do both on the volume side, but also, of course, in the project business, as we highlight in the risk section, but we obviously...that's what we aim for and at this point of the year we start to have relatively good visibility on what we can deliver and where we are based in the order book, so it is really based on that. Then we, of course, still can have some areas of cost where we still can have an impact during the six months for this year, but I think more importantly when thinking about your question on run rate to 2013 is that obviously in both load handling and terminals, the Management is looking through how to improve the business. You saw our CEO presenting a short wrap-up of the summary. There will be actions under those quite a bit initiated then as we go ahead, so in that way I would certainly think that our run rate and what we aim for in 2013 is different from what we can achieve in the second half, just because of the fact that the second half is already ongoing, so time puts some pressure on the things you can achieve.

Okay and then maybe one follow-up question, if I may, regarding the higher margin equipment, which has been space (?) from Q1 into Q2, as you have indicated with the Q1 numbers, how much of that margin improvement in the terminals business was driven by this higher margin equipment?

Well, as you see, from the margin we still have a lot of work to do. What happened is that, yes, we were able to deliver the equipment that we were stuck with in inventory for March during the second half and that was mainly a reflection of then that you have some certain orders during the year and depending a bit on their timing where margins can

fluctuate, that it tends to always be the case, but in our quarter, because of the overall very weak start, it was kind of...the effect was more visible than otherwise. I think we comment in the slide also on the changes in product or market mix, indicating that there are some areas where we have lost on the better higher margin equipment and some of it we can influence, and some of course is dependent on just where the market is and where it isn't, and then we kind of need to just be flexible enough with our own setup that we adapt to the market changes.

Elina Riutta – Evli Bank

Yes, hello, a follow-up to the previous question on the deliveries that were delayed from Q1 into Q2. Is it so that because of these delayed deliveries, Q2 EBIT margin in terminals is now exceptionally high, that it has had effect on Q2, that you kind of got the higher margin project from Q1 in Q2 now?

No, no that's not the case. I think that should be very clear from our guidance as well that that cannot be the case. I said, as I was replying to Sebastian, I think the sort of...the kind of impact of that transfer between the quarters is maybe getting a bit too much attention. I think the year-to-date is a good number to look at where we are in terminals and, as said, the sort of...last year's rate is where we want to go and obviously then also further as we get our act even tighter and get a better grip of the business, and do some of the changes that the new Management is now planning based on the strategy.

Anette Luomanpera – DB

Hi, I have one question on your working capital. I see your account receivables have grown by 7%, so have you seen changes in availability of financing for customers?

I think we see the impact of the financing market more in certain orders taking very long to materialise, because customers are not...it takes more time for customers to arrange the financing and, of course, most visible this is in the marine business where shipyards have quite a lot of challenges to get financing. I think our account receivables growth is quite well in line with our sales growth and that is a reflection of the business volumes in our business, but of course the financing market is something we need to follow, but I would more say that that has...will then have implications on order intake development, that how well can customers get financing and go ahead with their capacity plans.

Erkki Vesola – Swedbank

A question on the US Defence Department frame agreement that you guys have; how much of that was there in Q2, I mean was there more than 50 million and how much is there still left of the frame agreement and when do you expect the first order then delivered?

So you're talking about the order intake.

Yes.

Yes, how much did we have in...?

We have received roughly 800 plus; now we've got 766 and it's somewhere between 800 and 815 total currently.

That's in terms of number of equipment.

Yes, yes, out of that 1,900.

Okay, okay.

So half of it is in.

In the order book still.

Yes.

Yes and about the timing of these deliveries, any hunch on that?

Time of the deliveries?

Or the...yes, I mean if we are talking about the frame agreement, of course they materialised first in orders, actual orders, and then deliveries.

Yes, the frame agreement is five years, so it's fairly difficult to see; it depends on the US Government, when they take delivery, but the deliveries will start next year.

Okay, fair enough, thank you.

And just to clarify, half of that frame agreement is in the order book.

Paul – Carnegie

It was just a quick question. You mentioned within terminals that you had this ongoing significant investment in port automation, which has led to spike in R&D. I think you referred to it first in Q1. Where do you see this spike in R&D tailing off, please?

It will be on this level during 2012 and then it's spiking off, so '13, so if you look at the run rate, you can use that run rate for this year.

Okay, thank you and second question, you mentioned that there's been a focus very much on profitable order intake only. I noticed the order intake surprised in this quarter. Would it be fair to assume that they...the surprising order intake in this particular quarter is already with that margin focus and that's why you're comfortable with the full-year EBIT margin guidance reiterated?

Yes, you have to remember the big order intake during quarter two is, of course, not...it will not be delivered this year. That's fair to say. Secondly, we also said that there is a pressure from the market, but what I tried to say is that we cannot take the project at any price, so we have put very much focus on profitability instead of growth.

Tom Skogman – Handlesbanken

Just about the R&D spending, how much will there be of in 2012 compared to 2011 in total? That is my first question and then I can take another one after that.

Yes, the R&D costs in the first six months were 38 million, which is a 10-million increase year-over-year, or first half 2012 compared to first half 2011.

*So it will be up by more or less €20 million in the full year of *text here*.*

No, I'm not sure I catch you; 38 million for the first six months and, as our CEO indicated, that would be the run rate to use for the full year.

It's about 20 million, yes.

Yes, the delta, sorry, yes; yes, that delta on the year-over-year, yes.

And then my question would be about restructuring needs. We see that in the marine business the order book is now shrinking quite quickly and still have a good profitability and still have a good profitability there, and then we know also that in the other businesses you have already very good sales levels if you compare to your history, but the margins are so much lower, so will we see some major restructuring initiatives really soon or how will you secure the profitability?

Of course, Tom, we have to look at the costs all the time and that goes for all the three business areas and we will inform you when and if we have any plans for that. That's all I can say, but of course we are all the time looking at the costs. Costs are not only restructuring; I mean they are spending on R&D from outside parties. They are all kinds of other costs as well, so...

And then finally could you give like a mid-term update about how your planned listing on marine in Singapore is proceeding, what kind of conclusions have you reached so far? Do you have anything to say at this moment?

No, we will come back to that when we come out with the Q3. We are continuing studying that, but we have nothing new to tell you in that respect.

Participant

About the order inflow in marine, it seems to stabilise now around something like 108 million, do you think that this could be sustainable if the total ship building market is still declining? I mean can you compensate the decline in bulk business by the offshore business?

Yes, yes that's a good question. That's how we see it, that this is roughly the level where we are and it's not only offshore, it's also row-row (?) ships where there are interesting projects where the revenue per ship is much, much higher than the bulk carriers, so it's also a question of the mix.

Closing Comments

Okay then I think it's time to thank you and wish you all a nice summer. Thank you.

Yes, have a nice summer, thank you.